

**GOVERNMENT THAT WORKS!**  
**NEW JERSEY DEPARTMENT OF THE TREASURY**  
**LOCAL GOVERNMENT BUDGET REVIEW**  
**KEANSBURG MUNICIPAL UTILITY AUTHORITY**

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## **GOVERNMENT THAT WORKS**

### **OPPORTUNITIES FOR CHANGE**

#### ***The Report of the Keansburg Municipal Utility Authority Budget Review Team***

Local utility authority customers in New Jersey deserve the best service and rate structure their money can buy. Governor Christie Whitman is committed to making government leaner, and more responsive, by bringing a common sense approach to the way all governments do business. Taxpayers and ratepayers should get a dollar's worth of service for every dollar they send to a governmental entity, whether it goes to Trenton, the County, the local municipal building, the school board or the local utility authority.

Government at all levels must stop thinking that obtaining more money from the taxpayer and the ratepayer is the solution to their problems. Instead, they should start examining how they spend the money they now have and how they can enhance their revenues through mechanisms other than tax and rate increases.

There is no doubt the cost of operating a local utility authority -- and the rates that support them -- have been rising steadily over the last decade. Until now, the State has never worked with local agencies to examine what is behind those rising costs. That is why the Local Government Budget Review Program was created by Governor Whitman and State Treasurer Brian W. Clymer. Its mission is simple: to help municipal governments, school districts and utility authorities find savings, without compromising the delivery of services to the public.

The Local Government Budget Review Program fulfills a promise Governor Whitman made in her first budget address when she offered the State's help to local governments looking to cut costs. This innovative approach combines the expertise of professionals from the Departments of Treasury, Community Affairs and Education, with team leaders who are experienced local government managers. In effect, it gives local agencies a management review and consulting service provided at no cost by the State.

To find these "cost drivers," the teams review all aspects of the local agency requesting the review with the intent of looking for ways to improve efficiency and reduce costs. The team will also document those state regulations or legislative mandates which place an unnecessary burden on the local agency and suggest which ones should be modified or eliminated. Finally, the teams will note where local governments are utilizing "Best Practices" -- ideas that deserve recognition and that other local agencies may want to emulate.

The review and dialogue between local officials, staff and team members is designed to produce significant insight into the factors driving the cost of local governments, and provide the necessary tools to bring meaningful tax and rate relief to the State.

## **EXECUTIVE SUMMARY - KEANSBURG MUNICIPAL UTILITIES AUTHORITY**

### **A. BANKING AND CASH MANAGEMENT**

Modification of banking arrangements to generate reasonable rates of interest income and elimination of certain payroll account fees will yield **\$12,200** in additional revenues and reduced expenditures.

### **B. BILLING CYCLE, RATE STRUCTURE AND MAJOR RATE FACTORS**

Billing Cycle: Balancing the billing evenly over the three months in each quarter will enable the KMUA to eliminate at least one, if not two clerical positions and improve the utilities cash flow. Elimination of one position will yield an annual savings of approximately **\$24,000**.

Rate Structure: Revising the rate structure by tying sewer rates to water consumption will improve equity in the billing system. Approximately 42% of the customers would pay less because they consume smaller amounts of water and generate the smallest demand on the sewer system.

Major Rate Factors: Modification to the water purchase contract and elimination of the remaining debt service payments on the former sewage treatment plant will yield an opportunity to reduce recurring expenditures by approximately **\$75,350** per year. Elimination of the 2% rent reserve paid to the Bayshore Regional Sewer Authority would further reduce pressure on the rate structure and generate a one time revenue of approximately **\$446,650**.

### **C. PRODUCTIVITY, PAYROLL AND BENEFITS**

Modification of the work week will yield increased productivity and improved public access to the office. Modification of the scheduling of water plant personnel, reduction in the number of employees selecting family health insurance, merging insurance contracts and elimination of benefits for part time employees and appointees will yield annual savings of approximately **\$58,955**.

### **D. BUDGETING, PURCHASING AND PROFESSIONAL SERVICES**

Modification of purchasing procedures to require appropriate approval(s) and encumbrances and competitive pricing should generate a reduction in the cost of goods and services of approximately **\$31,000** per year. Reducing the routine financial, bookkeeping and budget work done by the auditor by reassigning it to the Executive Director will permit a reduction in the auditors professional service agreement of approximately **\$20,000**.

## **E. LOCAL REGULATIONS AND PROCEDURES**

Modification of local procedures and policies regarding deposits on accounts, waivers on amounts due and connection fees will significantly enhance the operation of the KMUA.

## **F. THE FUTURE OF THE KMUA**

Dissolving the authority and re-establishing utility operations as part of the municipal government will generate at least an additional **\$63,500** in savings for community. In addition, merging the agencies will enhance the Borough's opportunity to retain a full time finance officer and improve internal control procedures.

## **G. THE BEST PRACTICE OF THE KMUA**

The decision by the KMUA Commissioners to authorize the advance funding of the interest on the bond debt service reserve fund generated additional revenue and eliminated a major financial variable, thereby permitting the authority to improve its financial projections.

## **H. OPPORTUNITIES FOR CHANGE IN SUPPORT OF LOCAL ADMINISTRATION AND OPERATIONS**

It is recommended the State of New Jersey actively pursue (1) reduction in the restrictions to the local water diversion permit, (2) competitive proposals for banking services to maximize interest income and insure "arms length" transactions, (3) provide financial incentives and technical assistance to facilitate the merging of agencies (4) adopt the necessary statute or regulation to insure fair representation on all utility authority boards providing services to more than one municipal jurisdiction, and (5) adopt the necessary statute to permit attachment of rents for nonpayment of utility bills.

**COMPARISON OF BUDGET APPROPRIATIONS AND LOCAL RENTS  
WITH RECOMMENDED REDUCTIONS IN THE COST OF  
KEANSBURG MUNICIPAL UTILITY AUTHORITY**

A.	Banking and Cash Management	\$ 12,200
B.	Billing Cycle, Rate Structure and Major Rate Factors	546,000
C.	Productivity, Payroll and Benefits	58,955
D.	Budgetary, Purchasing and Professional Services	51,000
F.	Failure of the KMUA	63,500
<b>TOTAL</b>		<b>\$758,655</b>

<b>Total Operating Budget</b>	<b>\$4,062,381</b>
<b>Savings as a % of Operating Budget</b>	<b>18.68%</b>
<b>Total Annual Utility Rents</b>	<b>\$3,600,963</b>
<b>Savings as a % of Utility Rents</b>	<b>21.07%</b>

## INTRODUCTION

The Keansburg Municipal Utilities Authority is the first utility authority in the State of New Jersey to submit a request for a local budget review. Their willingness to extend this invitation is indicative of their realization that “business as usual” can no longer be tolerated. It is to the credit of the Executive Director and the Authority Commissioners that the decision was made to participate in the performance review process. During the initial interviews, the Executive Director made it quite clear that every effort had to be made to reduce the pressure on the local rate payers and every facet of the administration and operation of the utility authority was open for constructive critique and comment.

Since its inception in 1971, the Keansburg Municipal Utilities Authority has had to deal with a variety of complex and costly issues that have driven the cost of utility services upward. Many of these were beyond the scope of any Board of Commissioners to control, while others appear to have been based on the best intentions at the time decisions were made. This upward spiral however, cannot go unchecked, particularly in a community working hard to resurrect its local tax base, its tourist attractions and its own economic vitality. Accordingly, the local budget review team identified a series of recommendations that provide opportunities to enhance revenues, control costs and improvements in the operations and administrative functions of the Authority.

The specific areas addressed in the report are:

- Billing cycle, rate structure and major rate factors
- Productivity, payroll and benefits
- Budgeting, purchasing and professional services
- Banking and cash management
- Local regulations and procedures
- The future of the KMUA

Where possible, a dollar value has been assigned to each recommendation so as to provide a measure of importance or magnitude. The time it will take to implement each recommendation will vary. It is not plausible to expect the total projected savings to be achieved in a short period of time. Nevertheless, the total savings and revenue enhancements should be viewed as an attainable goal. They will lead to a reduction in rates and/or long term rate stability resulting from improvements in budgeting, cash management, cost control and revenue enhancement.

## **THE BEST PRACTICE OF THE KEANSBURG MUNICIPAL UTILITIES AUTHORITY**

When a utility authority sells bonds it is required to establish a “bond reserve fund.” This fund becomes a secondary source of money to insure the debt service payments are made on time. In the case of the KMUA, the bond reserve requirement is approximately \$1,586,000. The challenge the KMUA faces is to maximize the interest income on this large, restricted amount of money.

The fact that the money is being used to insure debt service payments restricts investment options. In addition, the money cannot be “tied up” in a long term investment because it must be available to make an annual debt payments, if necessary. These constraints normally limits investments to low interest options.

Given the pressure to maximize the investment income and make the best possible use of the public’s money, the banking and investment industries have produced a method that provides the required safety and liquidity, while improving the interest income. Called a “Forward Supply Debt Service Reserve Fund Agreement” (DSFSR), it provides a fixed, guaranteed yield for the term of the agreement that is higher than what can be obtained through traditional investment practices without putting the principal of the bond reserve fund at risk.

In November 1994, the Commissioners of the KMUA adopted a Resolution authorizing the Authority to enter into an investment agreement as described above. The Authority’s financial advisor competitively bid this agreement by requiring bidders to state the proceeds to be earned by the KMUA. The bids ranged from \$745,000 to a high bid of \$805,000.

Barring some extremely unusual market conditions that drive interest rates up radically, the KMUA will obtain more interest income than they would have otherwise earned. Another major benefit is that by entering into this agreement, the KMUA knows exactly what its annual interest income will be on this account. The elimination of uncertain and changing financial factors improves the Authority’s opportunity to develop more accurate financial projections.

## BILLING CYCLE, RATE STRUCTURE AND MAJOR RATE FACTORS

### BILLING CYCLE

The Authority sends out quarterly bills to all of its customers at the same time. Prior to sending out these bills the field crews must read the meters for all the active accounts. The field routes are divided into approximately 24 meter or "route" books. Keansburg has an exceptionally low percentage of estimated bills. This is the result of the wise decision several years ago to install electronic reading devices which eliminates the time consuming process of having to enter every structure. It also eliminates the lengthy and error prone task of manually entering meter readings into the computer system before bills can be printed.

Even with the high percentage of actual meter readings and the high degree of accuracy in the billing cycle, the system of quarterly billing contributes to the significant cash flow problems for the agency as well as a tremendous imbalance in the workload for field and office personnel. A relatively simple and straightforward modification to the existing billing cycle would significantly improve the agency's cash flow and resolve the imbalances in the workload for the utility. It is recommended that **(#1) the billing calendar be adjusted so one third of the accounts (meters) are read and billed each month.** Under the present system, all field work stops when meters must be read and the receipt of operating revenues from payment of bills is concentrated in four small periods of time each year. In addition the number of over the counter transactions is concentrated in a very short period of time, and the demand to complete the follow up work that comes with every billing cycle such as issuing late notices, or shutting off valves for non-payment occurs all at once. The entire process can be implemented and managed much more effectively if the workload and the receipt of revenue through payment of customer bills is balanced throughout the year.

In Keansburg the vast majority of bills are paid on a timely basis and are handled routinely. The work required to process these accounts includes posting the payment and including the payment in the daily bank deposit. This task can be completed in less than a minute, if not in a matter of seconds. A plausible measure of the workload pressure and staffing requirement is to identify the remaining time available to process accounts that are not routine and complete other tasks. To insure the development of a conservative estimate, the review team projected that 15% of the accounts are not routinely handled and that one full minute should be allocated to each routine account for processing every quarter.

Using our approach, posting the routine accounts will consume approximately 185 hours per year or 13% of the work time for one clerk. Under the present system there are three clerks or a total of 4,320 work hours in a year. This leaves 4,135 work hours per year to process 480 "non-routine" accounts and complete other tasks. Simply put, there is not enough work to warrant the existence of three full-time clerical positions, particularly since the executive secretary is available to cover during vacations, illness and unusually



busy periods. It is common to find public utility agencies where the account to clerk ratio exceeds 3,500 to 1. In the KMUA the ratio is approximately 1,050 to 1. It is questionable whether two clerical positions are truly needed. Accordingly, it is recommended that **(#2.A) at least one clerical position be eliminated, thereby reducing the operating expense of the Authority by approximately \$24,000 per year. If our suggestions concerning the workweek are implemented, strong consideration should also be given (#2.B) to eliminating a second clerical position, thereby saving an additional \$24,000.** It is important to note at least one position can be reduced even if the proposed modifications to the billing cycle and the work week are not made.

## RATE STRUCTURE

In Keansburg, the topic of utility rates was raised as a concern or a problem more than any other issue in the community. During every interview with citizens, community leaders and employees the issue of utility rates was raised. Implementation of the recommendations in this report will give the authority the ability to reduce its operating expenses, enhance its non-operating revenues, and provide an opportunity for the reduction of the utility rates. However, the team found that simply lowering the rate scale will not completely resolve the existing problems and frustrations in Keansburg.

Water rates are based primarily on consumption. The more water a customer uses the higher the bill is for that customer. This is not the case for sewer rates. All customers pay the same flat rate. Under the present rate resolution each billing unit pays a flat fee of \$78 per quarter for sewer charges. This charge is identical for the 1,643 customers or units that consumed less than 10,000 gallons of water during the first quarter of 1995 and the 71 units that consumed more than five times this amount during the same period. An underlying theme to the frustration surrounding the KMUA rate structure is the lack of equity in the sewer charges. A very strong case can be made that the small consumer is underwriting the sewer costs for the large consumer. Quite often the small consumers are families, while the larger consumers are businesses and commercial enterprises operating for profit.

The 1995 budget calls for \$2,294,300 in sewer service revenues. During 1994 the KMUA pumped a total 406,000,000 gallons through its water treatment plant or through direct purchase from the New Jersey American Water Company. If a charge of .0056 cents per gallon of water was assessed for sewer services, the 1995 revenue estimate could be met and approximately 58% of the units would pay less than the current charge of \$78 per quarter. Presumably, the bulk of these customers are the senior citizens and small families. The remaining 42% of the customer base would pay more than the current charge, however, they consume more water and therefore contribute more to the sewage treatment flows. In addition to establishing a common form of equity in the sewer rate structure, the Authority would also be establishing the best incentive possible to reduce water consumption and sewage flows. It is recommended that **(#3) the KMUA revise its sewer rate structure by developing a scale for sewer charges tied directly to the**

**amounts of water consumption.** It is important to note that if the recommendations contained in this report are implemented, it should be possible to adopt a rate structure that results in a decrease in sewer charges for more than 58% of the customer base.

### MAJOR RATE FACTORS

The largest component or factor in the cost of sewer services is the charge assessed by the Bayshore Regional Sewage Authority (BRSA). The actual expense in 1994 for regional sewage treatment expenses was \$928,626. This was 22.8% of the total water and sewer expenditure for the year or approximately 50% of the operations and maintenance expense. The decision to join the BRSA was effectively mandated by the New Jersey Department of Environmental Protection (NJDEP) when it adopted standards making it financially and operationally impossible to operate and maintain a local treatment facility. While the environmental advantages of regional sewage treatment facilities cannot be underestimated, the process of consolidation did not properly address some administrative and policy issues that have generated a significant impact on the ratepayer.

Under the current arrangement, the KMUA must pay a “rent reserve” equal to 2% of annual BRSA charge. The audits for the BRSA show an asset titled “Customer Escrow Deposits - Rent Reserve” and a corresponding liability titled “Escrow Deposits Payable.” The need to collect and retain this money at the expense of the local rate payers must be questioned notwithstanding the language adopted in the original agreement between Keansburg and the BRSA. The BRSA has other mechanisms available to it to insure full and complete payment by its member agencies, the least of which are the restrictions and obligations commonly found in most bond covenants. As of December 31, 1994 the BRSA was holding \$446,650 of the Keansburg ratepayers’ money. In the case of the KMUA, the bond covenants clearly stipulate the agency must meet all of its financial obligations. It is recommended that **(#4.A) the KMUA formally request the BRSA eliminate all future rent reserves and return the existing escrow balance to the KMUA.** Given the pressure to minimize rates throughout the Bayshore region, it would be in the best interest of regional cooperation for the BRSA Commissioners to act quickly and favorably on this request. Return of the rent reserve can be used to offset rates, accelerate debt service payments or pursue local capital projects through direct budget allocations in lieu of additional debt.

Should this matter remain unresolved at the local level, it is recommended that **(#4.B) the KMUA petition the Commissioner of Community Affairs to make the necessary changes in administrative regulations as well as petition their legislative delegation to make the necessary changes in state statutes to force regional agencies to return unwarranted reserves and unrestricted retained earnings to member agencies, particularly when the member agency has no representation on the board of the regional agency.** In addition to resolving the fiscal matters, it is recommended that **(#4.C) consideration be given to adopting regulations or statutes ensuring member agencies of representation on regional authorities.**

A second major rate factor impacting on the amount the KMUA must charge its customers is the long term “take or pay” contract for the purchase of treated water from the New Jersey American Water Company. As a result of a contract signed years ago, the KMUA is obligated to purchase at least 130 million gallons of water per year. For many years the public water utility companies in the Bayshore region obtained all of the water they needed through locally owned wells drilled into two different aquifers. As a result of the development of a state water master plan and concerns about saltwater intrusion into the aquifers, limitations were placed on how much water each utility could draw from its wells. The KMUA was issued a “diversion permit” by the NJDEP limiting the amount of water it can draw from its wells. This forced Keansburg and other agencies to enter into contracts to purchase water drawn from outside the Bayshore area.

At the time these long term contracts were negotiated, the total water consumption was much greater. Today the total water available to the KMUA through its diversion permit and the purchase contract with New Jersey American Water Company is far in excess of the demand. Because it must purchase 130 million gallon per year, the KMUA is paying more for the purchase of treated water than it costs to pump and treat water using the KMUA’s own water treatment plant. The KMUA can pump and treat a gallon of water for approximately 77% of the cost of purchasing it from New Jersey American Water Company at its lowest permitted, winter, rate.

As a private, for profit company it is logical to presume that New Jersey American has no incentive to modify the contractual arrangement with the KMUA. Yet it is in the best interest of the Keansburg ratepayers to reduce the volume of the mandatory purchase by at least 40 million gallons per year, thereby generating an annual savings of approximately \$48,000. In order to reduce the cost of the annual water purchase, the KMUA must identify an incentive or mechanism that will entice New Jersey American Water Company into agreeing to a modification to the existing contract.

**It is recommended that (#5.A) the KMUA propose a limited extension to the existing contract with New Jersey American Water Company in exchange for reducing the mandatory draw by at least 40 million gallons per year.**

In addition to pursuing a modification to the water purchase, **it is recommended (5.B) the KMUA actively pursue an increase in the amount of water it can take from its own wells.** Mandatory water quality tests taken from the wells in Keansburg show the chloride content has been consistently dropping. This is often a good indicator that the static pressure in the underground aquifers has increased to the point where there is little likelihood of salt water intrusion from Sandy Hook Bay or the Atlantic Ocean. If this can be accomplished the KMUA may be in a position to pursue a larger reduction in the mandatory take or pay contract with New Jersey American Water Company.

A third major component to the cost of providing sewer services to the ratepayers of Keansburg is the annual debt service payment on the old sewage treatment plant. In 1995, the payment will be \$27,350. When the authority was created, it agreed to make the annual debt service payment to the Borough of Keansburg who incurred the original debt.

After the Authority was essentially forced to join the BRSA, the plant was taken out of service and partially demolished. The KMUA is now making payments to the Borough on a structure that no longer exists.

The taxpayers of the Borough and the rate payers of the Authority are the same. The boundaries for each agency are identical. Given this overlap, it is recommended that **(#6.A) the Authority petition the Borough to forgive the final annual debt service payments due for the next six years on the old plant.** Given the opportunities and recommendations presented to the Borough by the local budget review team, it should be possible for the Borough to absorb this loss of revenue without having an adverse impact on the municipal tax rate.

Many local taxpayers and ratepayers consider the remaining portions of the partially demolished sewage treatment plant to be a monument to unfunded state mandates and state interference in local affairs. The Borough of Keansburg report contains a recommendation calling for adoption and implementation of a public facilities plan. The plant is located on a piece of public property which could be a valuable component of this plan. Given the emphasis being placed on resolving unfunded mandates and given the need to permanently close the history on the old plant, it is recommended **(6.B) the KMUA and the Borough jointly pursue funding to complete the demolition of this facility, thereby making a prime piece of public property available for reuse or sale.** The budget review team made no effort to develop a cost estimate for completion of the demolition and cleanup work. If the cost of demolition exceeds the value of the property then consideration should be given to selling the property "as is."

## **FISCAL IMPACT**

Eliminate one clerical position:	\$24,000
Eliminate second clerical position:	24,000
Eliminate local debt payment:	27,350
Reduce water purchase contract:	<u>48,000</u>
<b><u>SUBTOTAL - RECURRING:</u></b>	<b><u>\$123,350</u></b>
Recover rent reserve	<b><u>\$446,650</u></b>
<b>TOTAL</b>	<b>\$570,000</b>

## PRODUCTIVITY, PAYROLL AND BENEFITS

A significant disparity exists in the hours worked between the field employees and administrative personnel of the authority and their hourly wage. The employees under the supervision of the Water and Sewer Superintendent are scheduled to work a forty hour week while the administrative staff are scheduled to work a thirty hour week. The salaries and wages paid to the administrative staff are comparable to the compensation paid for similar positions in the Bayshore region; however, in most other agencies in the region the standard work week is 35, 37.5 or 40 hours long. Accordingly, it is recommended that **(#7) the Authority adopt a resolution establishing a 35 to 40 hour work week for all employees.**

Expansion of the work week would significantly improve public access to the Authority office. It could be staffed from 8:00 a.m. until 5:00 p.m., without incurring overtime cost or having to implement unusual work schedules. In addition, expansion of the work week further strengthens the opportunity to eliminate a second clerical position.

Under the present system, the water treatment plant is staffed full time for sixteen hours on weekdays, and eight hours per weekend day, when it is in operation. Restricting the employees to the plant during those hours reduces the productivity of two full-time positions earning at least \$60,000 in salary and benefits for approximately two thirds of the year. The water treatment plant, which is in excellent condition, has a sophisticated alarm and communication system that can be linked to the police dispatch desk as well as the pagers carried by employees. The advances in telemetry, warning alarms and electronic communication have given many agencies an opportunity to modify work schedules and assignments. It is recommended that **(#8) the night and weekend plant shift be eliminated in favor of an on-call duty system.**

Many public water utilities pay a "duty fee" to have an on-call employee visually check the water plant and respond to any alarm generated by the electrical systems in the plant. A reasonable duty fee per weekday evening and for each day of the weekend can be absorbed into the budget. The KMUA could chose to eliminate one position thereby saving approximately \$30,000 per year. However, given the recurring use of contractors to do small jobs that should be done in house, such as replacing fire hydrants, raising buried valves, replacing frozen valves, etc., it probably would be more cost effective to retain the position and significantly reduce the amount and cost of outside contract work. To do otherwise would be contradictory to the stated goals of the authority and the budget review process.

Seven of the eleven full-time staff members cover their families under the benefits plan. This costs the authority an additional \$30,800 per year. Given the increasing costs of benefits it is recommended that **(#9) the Authority require individuals selecting full family coverage to pay a portion (percentage) of the difference between the premium for full family coverage and the premium for the employee only.** This would cost the employee a small amount for a comprehensive insurance plan for family

members, and it should discourage employees from selecting family coverage if it is not needed. If the level of coverage was reduced by only three employees, then the KMUA would save approximately \$13,000 per year. It is also recommended that **(#10) the benefit package be eliminated for the part-time authority commissioners.** While there is no doubt the Commissioners are an active and important part of the authority, the fact remains they are part time officials appointed to serve the public. In 1994, the direct benefit expense was approximately \$15,590 which is \$5,590 more than the amount paid in salaries. To insure a smooth transition, any commissioner currently enrolled in the benefit program could remain enrolled until the end of their service on the board by reimbursing the authority for 100% of the premium expense.

In addition to reviewing the levels and types of coverage the review team compared the cost of coverage with the Borough and the Keansburg Board of Education. The team found the coverages provided by the Borough and the Authority to be very similar, if not identical. Even though the insurance carriers are the same the authority pays approximately 17% more for the coverage. This may be due to the fact that the authority is a separate, smaller insurance group. For example, a full indemnity plan for a family costs the authority \$5,874, while it costs the borough \$5,028. In addition the Borough has HMO options available at an even lower cost. The premiums paid by the authority for health, dental, vision, life insurance and accidental death and dismemberment insurance are higher than the premiums paid by the Borough. The lone exception was the prescription plan. Accordingly, it is recommended that **(#11) the authority seek to merge insurance plans with the Borough through a subcontract, shared premium or other mechanism acceptable to both agencies.** The savings to the KMUA would be at least \$14,365 per year.

In addition, it is recommended that **(#12) the sick leave buy back program be amended to establish a cap not to exceed \$15,000 regardless of the total number of days accrued.** The Fair Labor Standards Act does not recognize unused sick leave as mandatory compensable work time. Under the current KMUA policy, an employee may buy back a portion of their unused sick leave each year and also obtain payment for unused sick leave upon retirement. The sick leave buy back program was developed to keep employees from using their sick time improperly. We would prefer that they discipline those employees who betray the public trust by abusing the benefit. By capping the total possible payout at \$15,000 the KMUA can properly identify and plan for this financial liability.

## **FISCAL IMPACT**

Establish night, weekend duty assignment (est):	<\$14,000>
Eliminate one field position or reduce contracting:	30,000
Eliminate family insurance coverage (3 cases):	13,000
Merge insurance contracts:	14,365
Eliminate commissioner's insurance coverage:	<u>15,590</u>
<b>TOTAL</b>	<b>\$58,955</b>

## BUDGETING, PURCHASING AND PROFESSIONAL SERVICES

At its meeting on February 22, 1995 the first four resolutions adopted by the Commission authorized no-bid contracts for legal services, engineering services, auditing services and risk management, as permitted by the Local Public Contracts Law (NJSA 40A:11-5). None of the resolutions established a limit on the amount of the authorized expenditure(s). While the day to day communication between the appointed professionals, the executive director and the commissioners may be excellent, the public record should reflect the total anticipated expenditure as well as the rates of compensation. Without an initial estimate of the total expenditure, there is no way to properly budget for the expense or monitor the expenditures during the year. If it appears the anticipated expenditure is going to be exceeded because of additional work, for which the professional is entitled to be compensated, these changes should be reflected in the public record.

It is also appropriate to include the detailed billing rates and the proposed annual expenditure, in a letter of engagement and in the appointing resolution. None of the resolutions reference a letter of engagement nor are there any letters of engagement, attached to them. The review team requested copies of the letter(s) of engagement from the staff and from the appointed professionals. Apparently they do not exist. It is recommended that **(#13) no resolution appointing a professional be adopted until the authority has obtained in writing the rate schedule and the anticipated total expenditure, as well as the certification by the Executive Director that funds are available to cover the anticipated costs.** Failure on the part of a professional to provide the requisite letter of engagement is just cause to withhold or terminate an appointment and refuse to make payments on invoices presented to the agency.

In 1994, the total expenditure for legal services was approximately \$26,000 while the auditing firm was paid approximately \$37,465. Neither of these amounts appear to be excessive given the scope of the work, nor is there any indication of improprieties in the bills and invoices. In addition to the actual audit, the auditing firm prepares the recommended budget, submits regular budget reports and reconciles the bank statements. The audit firm is performing finance and management functions normally assigned to the executive director. To insure future audits are truly an independent assessment of the financial condition and internal control procedures of the authority it is recommended that **(#14) all financial management, budget preparation and other fiscal duties be returned to the Executive Director.** Based on comparison of audit fees for other public utilities, the KMUA could save approximately \$20,000 if the work of the auditor was limited to completion of the annual financial statements and assisting the staff with unusual and difficult matters.

Nearly all of the engineering work performed on behalf of the authority can be directly associated with a specific project. **As such, it is recommended that (#15) the authority require professional service agreements for each engineering project.** Even if the form and general content of the resolutions becomes repetitive this process will ensure

there is consideration of the total anticipated engineering expenses and proper budgetary planning. It will also make it easier for the Executive Director to track and assign engineering costs to the appropriate capital budget line or bond account.

In addition to properly managing and tracking expenditures on capital projects, operating expenses must be managed and controlled in the same manner. The review team found that operating expenses are not encumbered prior to a purchase. The lack of budget encumbrances appears to be an outgrowth of the rather informal purchasing system. In situations where a purchase order is used, there is no procedure requiring approval prior to acquiring the item. The Executive Director does not sign any purchase order prior to receipt of the goods or services. As a result, there is no mechanism to determine the availability of funds in any particular budget line nor is there any process to ensure compliance with the statutory requirements for formal bids, written quotes and proper control of public expenditures.

In a spot check of purchase orders, the review team found a number of violations of the bid and purchasing statutes of the state. An unusually large number of "open accounts" existed for which there was no purchase order, no authorization by the Commission and no expenditure limitation. In at least three cases, the amount purchased exceeded the legal bid limit. In at least five other cases, the amount purchased exceeded the requirement for obtaining and documenting price quotes to ensure maximum competition and the best possible use of the ratepayers money. One local contractor had been used to complete a number of projects without benefit of the bid process. In 1994, the total amount paid to this firm exceeded \$100,000. Some of this work was identified as emergency repair work, however, there were no memorializing resolutions approved by the authority documenting the need for the emergency repair work or ratifying the exemption to the formal bid requirements and no documentation of price quotes from other contractors. It did not appear that other local firms had been given the opportunity to do any of the work nor did they have the opportunity to provide a rate sheet outlining the cost per hour for commonly used equipment, skilled laborers and general laborers.

The review team recommends the following improvements in the purchasing system:

**16.A. Implement an encumbrance system.** Among other things this will lead to improved budget management.

**16.B. Modify the existing purchase order form to include a signature block that would show approval of the purchase before it occurs.** Make the payment voucher form a copy of the purchase order, thereby facilitating the payment process.

**16.C. Regularly solicit rate sheets from area contractors and develop a call list for emergency repair work.** The need to respond quickly to emergencies does not eliminate the need to obtain competitive prices. It only absolves the agency of the need to meet the normal standards regarding the schedule and calendar of the bid process.



**16.D. Plan and schedule small capital projects to maximize competition.**  
Solicit written quotes (informal bids) even if the estimated cost is below the mandatory bid limit.

**16.E. Require resolutions memorializing the decision to proceed with emergency repair work without the benefit of the competitive bid process.**

**16.F. Require signed price quote sheets to be attached to every purchase order over \$500.**

**16.G. Review all existing open accounts, and select only those that are legitimately needed, establish a “not to exceed” amount per month or per quarter, present one resolution to the commission soliciting approval to establish the (controlled) open accounts.**

The “other expense” budget lines for water and sewer services in the 1995 budget totals \$1,623,850. Approximately \$1.3 million will be spent on the purchase of water from New Jersey American Water Company and payments to the Bayshore Regional Sewer Authority. Implementation of the recommendations outlined above should generate a reduction in expenses of at least \$31,000, or approximately 10% of the cost of the local purchases and contracts. This estimate does not include the savings that can be achieved through competitive contracting for small capital projects and emergency repair work.

#### **FISCAL IMPACT**

Reduce auditing firm workload and expenses:	\$20,000
Improve local purchasing procedures:	<u>31,000</u>
<b>TOTAL</b>	<b>\$51,000</b>

## BANKING AND CASH MANAGEMENT

Products and services offered to public agencies by the banking industry are changing rapidly which is enhancing an already highly competitive marketplace. It is in the best interest of the Authority and its ratepayers to take advantage of the competition between banks by conducting an annual review of services, interest rates and charges to ensure the agency has the best possible banking contracts.

The number and type of bank accounts and banking services can be separated into two general, though not mutually exclusive, categories. The first group are the accounts and services required by the bond covenants adopted at the time the KMUA issued debt. The second category are the accounts and services directly related to the operation of the agency.

With one minor exception, all of the operating and bond accounts are managed by one bank. The team did not find any written agreement or contract with the bank which outlined interest rates, fees or services. The bond covenants and regulations pertaining to the management of the Authority's existing debt do not stipulate the use of any particular bank nor do they limit the ability of the Authority to make its own decisions regarding banking policies and services. Accordingly, it is recommended that **(#17) the Authority actively solicit and evaluate responses to a written proposal prior to adopting any resolution designating the official depository or depositories of the Authority.**

The review team found several inconsistencies and errors in the bank statements. For example, in some months service fees appear to have been deducted from accrued interest without the corresponding debit and credit entries appearing on the monthly statement. The balance on the last day of the month did not match the balance on the first day of the next month and, there did not appear to be a consistent or competitive rate of interest paid on any of the accounts. The staff of the independent auditor have been completing the monthly reconciliation of the bank statements, putting the auditor in the awkward position of auditing records being maintained by his own staff. Accordingly, it is recommended that **(#18) the Executive Director or other staff member be assigned the responsibility of reconciling all bank statements and resolving any differences with the bank. An alternative, developed more fully in a later section of this report, would be to have the Finance Office of the Borough to complete the bank reconciliations.**

Payroll and payroll agency accounts, given the small number of transactions, particularly in the payroll agency account, it is recommended that **(#19) the payroll and payroll agency bank accounts be consolidated into one account thereby reducing the likelihood of fees and charges and enhancing the potential for interest income. It is also recommended that (#20) the consolidated payroll account be set up as a "zero balance account," which automatically draws only those funds needed from the operating account to cover checks actually cashed.** Based on the data provided in the monthly bank statements, the payroll agency account did not earn any interest in 1994

while the payroll account appears to have earned \$28.07. A total of \$447.81 in bank fees and charges appear to have been assessed against these two accounts.

The authority also pays Automated Data Processing (ADP) to prepare the payroll checks and complete the required tax and pension reports. Approximately \$3,000 is charged to either the payroll or payroll agency account for other services. ADP provides a number of optional services which represent approximately \$500 of the total cost charged to the KMUA. It is recommended that **(#21) the Authority eliminate the cost of these optional services by having the staff complete these tasks.**

Throughout New Jersey it is customary to fund “compensating balance” arrangements where the bank pays all of the payroll fees in lieu of paying interest. In the case of the KMUA, it is paying the fees and still not receiving a competitive interest rate. If a consolidated zero balance account is not established, as recommended the KMUA should at least establish a competitive interest rate for the payroll account(s).

Revenue Checking Account: This account serves as a clearinghouse for all revenues until the deposits are transferred into the operating accounts, debt service accounts and other accounts required by the bond covenants. The account is swept or cleared approximately every eight days, which means large sums of money lay dormant for an extended period. During 1994, the average monthly beginning balance in this account was \$30,815.60. The lowest beginning balance was \$984.18 (presumably just after the account had been swept) while the highest beginning balance was \$102,155.37. In nine out of twelve months the beginning balance was greater than \$10,000. No interest income was earned on this account during 1994. It is recommended that **(#22) the Authority arrange a daily sweep of the revenue banking account and/or require this account become an interest bearing account.**

Operating Account: During 1994, the average monthly beginning balance in the operating account was approximately \$132,382. According to the bank statements, \$1,554.92 in interest was earned and \$99.84 in service charges were assessed. The paltry amount of interest income should not be permitted to continue even if there are wide variance in the average daily balance of this account. In 11 months of the year the beginning balance was in excess of \$10,000; in five of these months the beginning balance was in excess of \$100,000.

If all of the funds in the four operating accounts was placed in interest bearing accounts earning market rates, the KMUA would receive at least \$8,000 per year in additional interest income. If the bank fees paid in 1994 were reduced by 50 percent the Authority would save an additional \$1,200 per year.

Bond Accounts: The dedicated bond funds exist for the purpose of protecting the bondholders and ensuring the Authority makes timely payments on its outstanding debt. In addition to the checking accounts discussed above, the official depository which also serves as the bond trustee maintains a construction fund, revenue fund, operating fund,

bond service fund, bond reserve fund and a renewal and replacement fund on behalf of the Authority. Article V, Section 501(2) of the “Resolution Authorizing The Issuance of Revenue Bonds of the Borough of Keansburg Municipal Utility Authority” stipulates that all of the funds named above, except the operating fund shall be held by the trustee.

There appears to be a need to maintain an operating fund and an operating account. During 1994 the average balance in the operating fund was \$144,293.31. The combined average monthly balance of the operating fund and the operating checking account was in excess of \$276,000. Accordingly, it is recommended that **(#23) consideration be given to placing the operating fund and the operating account under the local control of the Executive Director.** After the bond trustee has withdrawn the amounts needed from the revenue checking account to establish the minimum balance(s) in the bond funds, the balance of the revenue checking account can then “sweep” into the operating fund. The ability to readily control account balances will be particularly important as improvements are made in the cash flow and investment strategies of the Authority.

It should be noted that the Authority authorized the sale of the future interest in the bond reserve account balance, thereby enhancing the interest income resulting from this account. This transaction is described in detail in the “Best Practices” section of this report.

#### **FISCAL IMPACT**

Additional interest income:	\$ 8,000
Potential reduction in banking fees:	\$ 1,200
Eliminate option ADP fees:	\$ 500
Bank absorb remaining ADP fees:	<u>\$ 2,500</u>
<b>TOTAL</b>	<b>\$12,200</b>

## LOCAL REGULATIONS AND PROCEDURES

During our review of customer billings, the team found that more than \$6,000 in payments had been waived. Most of the waivers were of bills from the first quarter of the year when there were some extended “cold snaps” and a large number of broken water pipes -- not only in Keansburg but throughout the area. Any time a storm or the weather causes broken pipes, frozen meters and other kinds of damage to a utility system, there will always be disputes between the agency and some of its customers. As such, the existence of adjustments to customer bills is not unusual. However, the current local regulations do not provide for waivers of payments nor were there any resolutions by the Commission ratifying the decision(s) to waive certain payments. Accordingly, it is recommended that **(24.A) the Executive Director and the Commission establish policies and procedures for waiving a bill when ownership or responsibility cannot be determined, and (24.B) all actions to waive a bill be reported to the authority in the form of a memorializing resolution.** Implementation of these two recommendations will improve the internal management controls and eliminate any presumption of special treatment or inappropriate conduct.

The Keansburg Municipal Utility Authority does not currently assess a deposit on any new or existing customer, even though state law (NJSA 40:1B) permits reasonable deposits. **It is recommended that (#25) the authority adopt and implement a schedule of security deposits for all new customers.** The agency will have to ensure that proper escrow procedures are established that to prevent the misuse of the customers’ deposits.

Under the present billing system customers are charged a quarterly sewer fee for up to one year after the water has been turned off. A very strong argument could be made that the customer is not receiving any services and therefore should not be paying any fees. Apparently this billing procedure was developed during a period when the seasonal use of the coastal residences was much higher than it is today. It served as a deterrent to repeated requests for connection and disconnection of services in one year. It is recommended that **(#26) the current practice of billing for sewer for one year after disconnection of the water be stopped and that a (re)connection fee covering the cost of the work associated with opening and closing an account be implemented.**

The KMUA has been aggressive in pursuing water shut off for non payment of bills. While in most cases the field crews restore the service rather quickly, this practice does help resolve many of the difficult, delinquent accounts. On occasion, the authority encounters a public relations problem when a tenant loses water service because a property owner is delinquent in paying the utility bill. In order to reduce this problem as much as possible it is recommended that **(#27) the authority adopt a policy of notifying tenants through “door knocker” notices three working days in advance of the actual shut-off.** This will give the tenants ample time to notify the landlord themselves, and make alternate arrangements. If the authority inadvertently shuts off the water of a tenant

because the staff did not know it was rental property, the Borough should be notified to insure the proper certificates of occupancy have been issued.

In order to provide a more direct mechanism to address the problem of nonpayment by landlords, we propose that statutory modifications be made to permit a utility to attach the rents for the purpose of obtaining payment. A similar statute exists enable municipalities to obtain tax payments.

## THE FUTURE OF THE KMUA

The five previous sections of this report outline over 25 recommendations intended to reduce the cost of services or improve the value of the service being provided for the customers of the Keansburg Municipal Utility Authority. Overall, a total of \$248,938 in recurring expenditure reductions and revenue improvements were identified. In addition, elimination of the 2% Bayshore Regional Sewer Authority rent reserve, estimated to be \$446,650, would benefit the agency and its customers tremendously.

Even if every recommendation was implemented to the fullest extent possible, the question still remains as to why a separate utility authority should exist in a one square mile town of approximately 12,000 people. The rate payers and the taxpayers of Keansburg are the same. The service boundaries of the utility authority and the political boundaries of the Borough are identical. Given this tremendous overlap, it is prudent to think and to act in accordance with the best interests of the community of Keansburg. In addition to the utility authority and the borough government there is also a K-12 school district and a housing authority. Keansburg residents are supporting four separate governmental structures, each with redundant functions such as payroll, purchasing, vehicle maintenance, and building maintenance as well as redundant overhead costs such as insurance contracts.

Every possible opportunity should be taken to simplify and reduce government. There is no reason to burden taxpayers and ratepayers excessively for the purpose of maintaining four independent bureaucracies. In addition to the recommended improvements to the operation of the utility, the review team identified the following advantages to dissolving the utility authority and establishing water and sewer utility funds under the auspices of the borough.

A. All major policy and budget decisions affecting the operation of the water and sewer services should be made by officials directly elected by the public. The existing commissioners are not elected representatives. The separation of responsibilities denies the utility commissioners and the borough council members the opportunity to thoroughly consider the competing demands and pressures resulting from tax bills and utility bills.

B. The community would have the opportunity to reduce the total amount of land occupied by public agencies to return some of it to the tax roll. Related recommendations in the Borough report outline the need for a public facilities plan. The consolidation of offices generates options for the community to consider. These options include using the existing KMUA site for a new borough hall and selling the existing borough hall and other sites.

C. The existing debt of the community would be consolidated. Apparently one of the primary reasons for creating a separate utility authority was to make it possible for another agency to incur debt for public purposes. By doing this, it was argued, the total debt capacity of the borough would not be consumed by the need for major utility

reconstruction work. This strategy did not consider the overall debt burden borne by the community. The Local Finance Board of the State of New Jersey has the authority to modify or waive the debt limitations of an agency for just cause. The consolidation of agencies would be a case worthy of review and consideration by the Local Finance Board. Furthermore, the consolidation of debt would present a more accurate statement of the burden carried by the residents and businesses of Keansburg. Simply put, it is a more forthright approach to managing one of the major cost drivers in local government. Given that the KMUA debt issues are insured, the necessary steps to transferring the existing debt to the Borough upon dissolution of the authority can be accomplished relatively easily.

D. Consolidation of the agencies would permit the borough to hire a full time Finance Officer who can also function as the Director of Utility Administration. The borough currently spends approximately \$27,000 per year for part time financial consulting. The KMUA allocates approximately \$40,000 per year in base salary for an Executive Director. The size of the combined budgets of the borough and the utility authority, the related demands for improved purchasing, updated banking procedures and improved internal controls indicates the community would be best served by a full-time finance officer once the agencies are combined. Creating this position, which has been done successfully in other New Jersey communities, would enhance the opportunity to immediately address many of the recommendations outlined in this and the borough's report. The anticipated combined savings would be at least \$15,000 per year.

E. The opportunities for repair work and special projects to be done in-house would be enhanced significantly. When the utility and street crews are part of the same organization they can support and assist each other without the need for approvals by both governing bodies, and the cumbersome process of cross billing and invoicing for labor and material costs.

F. The management and scheduling of field supervisory personnel would be improved. For example, when the street superintendent is away from the job due to illness, vacation, injury, etc., the utility superintendent can oversee the work of the crews.

G. Many of the redundant overhead costs can be reduced or eliminated. In addition to the items outlined in this and the borough report, the following additional cost savings can be obtained.



1. Elimination of commission salaries:	\$10,000
2. Reduction professional service fees:	20,000 (estimate)
3. Reduction in insurance expenses:	15,000 (estimate)
4. Consolidation of vehicle maintenance expenses:	<u>3,500</u>
SUBTOTAL	\$48,500
5. Finance Officer (Item D above)	<u>15,000</u>
<b>TOTAL</b>	<b>\$63,500</b>

It is recommended that (#28) **the governing body of both the Borough of Keansburg and the commissioners of the Keansburg Municipal Utilities Authority work jointly to dissolve the Keansburg Municipal Utilities Authority.**

## STATUTORY AND REGULATORY REFORM

It is common for municipal officials to blame tax increases on the “state mandates.” Each local budget review team is charged with the responsibility of soliciting from the communities their opinion of the regulatory or statutory mandates that truly have an adverse impact on the cost of local government. The findings summarized below will be reviewed by the appropriate state agency for the purpose of initiating constructive change at the state level.

1. It is recommended that **the State of New Jersey review the restrictions currently placed on Bayshore communities for drawing water from wells within their jurisdiction.** At the time these diversion permits were established, there was evidence that water was being drawn from the underground aquifers faster than they could recharge. As such, salt water intrusion was a serious concern. Data required to be collected by the Water and Sewer Superintendent would indicate that the aquifers are recharging and the static pressure is great enough to deter salt water intrusion.
2. It is recommended that **legislative consideration should be given to statute(s) requiring competitive written proposals for banking services.** Changes in state and federal banking regulations have enhanced the competition in the banking industry. Public agencies should be encouraged to enhance their revenue stream by taking advantage of these marketplace conditions. Convenience, tradition and “relationships” do not justify missed opportunities to generate additional interest income. Just as contracts are required for every other major service, so too should contracts be required for banking services.
3. It is recommended **that all appropriate State agencies work to establish mechanisms to promote, facilitate and assist the consolidation of local agencies.** It is further recommended the plan to be developed include the following:
  - A. Provide a state clearing house to help resolve local issues related to consolidation.
  - B. Provide financial incentive in support of consolidation. This incentive would help offset the costs associated with the reorganization and consolidation which frequently prevent the realization of long term savings.
4. It is recommended that **legislation be enacted as soon as possible requiring local representation on the boards of regional authorities.** When a community is part of a regional system a large block of citizens should not be denied representation in the public agency that makes decisions affecting their pocketbook.
5. It is recommended that legislation be enacted to permit a utility authority to attach rents for nonpayment of utility bills. Legislation has been enacted to enable municipal tax collectors to attach rents for nonpayment of taxes.

## **LOCAL GOVERNMENT BUDGET REVIEW**

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